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SUBJECT: Mexico Economic Weekly - October 02

¶1. (U) The Mexico Economic Weekly supplements reporting from Mission Mexico Consulates and the Embassy Mexico Economic Section to provide a sense of ongoing trends. Please contact Adam Shub (shubam@state.gov) or Sigrid Emrich (emrichs@state.gov) for questions or comments about this report.

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¶3. (U) MEXICO NEEDS A DYNAMIC DOMESTIC MARKET TO CONSOLIDATE ECONOMIC RECOVERY: The economic recovery in Mexico will not consolidate until the domestic market -particularly private consumption - which contributes with 50% of the economic activity, strengthens. For economists, such as Alfredo Coutio from Moody's and Jorge Smeke from Universidad Iberoamericana, the government should continue working on structural reforms in order to eliminate the existing bottle necks, which delays a larger and more rapid economic growth. For them, an important factor for the economic recovery is the improvement in labor markets and workers conditions in combination with strong finances and social policies that strengthen private consumption. Both believe that Mexico needs a change in the economic growth drivers. Coutio and Smeke agreed that unfortunately the countercyclical programs implemented by the government during the economic recession were insufficient because of the limited available resources as a result of the decline in oil and tax revenues. (Mexico City)

¶4. (U) GOVERNOR DEFENDS DEBT LEVELS, DESCRIBES CRITICAL ANALYSIS AS "INADEQUATE": Responding to criticisms that he has left Nuevo Leon the most indebted of all Mexican states, outgoing Nuevo Leon Governor Jose Natividad Gonzalez Paras

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claimed that, if debt levels have increased, so has the state's ability to generate income. According to Gonzalez Paras, the debt contracted has been invested in infrastructure that has made Nuevo Leon a leader in the nation, as evidenced by a more rapid economic recovery in the state than in other parts of Mexico. This debt has been measured as 51% of the state's 2008 budget; the national average of states' debt as a percentage of budget is 17%. (Monterrey)

¶5. (U) BAJA CALIFORNIA GOVERNOR URGES SUPPORT FOR CALDERON BUDGET PROPOSAL: Governor Osuna Millan (PAN) has spoken out twice in the last week urging legislators to pass the administration's budget. According to Osuna Millan, failure to pass the budget will result in less money for the state to pursue infrastructure projects and less money for municipal governments. Business groups in Baja, however, have publically come out against the tax increases included in the budget. (Tijuana)

¶6. (U) REMITTANCE PAYMENTS BECOME MOST STABLE SOURCE OF FOREIGN EXCHANGE IN CHIHUAHUA: Second quarter remittance payments from the U.S. to Chihuahua fell at a year-over-year rate of almost 20%, according to recent statistics published by the Mexican Central Bank (Banxico). In the second quarter of 2009, Chihuahua received \$US 107.6 million in remittances, compared to \$US 131.6 million during the same quarter last year. Despite the decline, remittances have become a more stable source of foreign exchange for Chihuahua than foreign direct investment (FDI), which fell by almost 60% during this same period. In 2008, remittances were equivalent to 43% of total state foreign direct investment (FDI); this year to the second quarter they were equivalent to 67%. Many economists argue that remittances are more counter-cyclical than other capital flows due to the personal relationship between the sender and receiver of these income transfers. In Chihuahua, this appears to be the case. Even though remittances have fallen, they remain an important source of income for low-income families to meet their consumption needs as the economy slows. (Ciudad Juarez)

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¶7. (U) TEMPEL STEEL SET TO INVEST IN NUEVO LEON ONCE AGAIN: Timothy Tyler, President of U.S. multinational Tempel Steel, a manufacturer of magnetic steel laminates for the electrical and electronics industry, recently announced that his company will move forward with a planned investment of \$25 million in its plant in Apodaca, Nuevo Leon. This investment will bring the plant up to 89% of its designed capacity. Tyler indicated that the company plans to close one of its plants in the state of Illinois, and relocate \$2.5 million of equipment to its Apodaca facility. These plans had been put on hold in 2008, after company sales dropped 45%. The company is currently registering a 4%-5% growth in sales, and hopes to reduce production costs by expanding operations in Mexico. (Monterrey)

¶8. (U) ALFA BREAKS PROFIT EXPECTATIONS: Exceeding analysts' expectations, Monterrey based conglomerate Alfa reported a 23% increase in earnings at the conclusion of the third quarter, slightly higher than analysts had predicted. Alfa's divisions operate in various manufacturing sectors: Alpek manufactures petrochemicals, Nemark auto parts, Sigma food products, and Alestra provides telecommunications services. According to Mario Paez, Alfa's Director of Finances, sales were particularly strong in the auto parts sector, where the U.S. "Cash for Clunkers" stimulus package increased sales of aluminum heads for automobile engines. (Monterrey)

¶9. (U) MEXICAN DAIRY PRODUCTS FIRM ACQUIRES HOLDINGS IN THE U.S.: Durango based dairy conglomerate Grupo Industrial Lala S.A. announced on September 28 the purchase of two U.S. dairy firms: Farmland Dairies of New York and New Jersey, and Promised Land of San Antonio, TX. While Lala did not publicize the purchase price, independent analysts estimate the purchase at \$500 million. This purchase follows closely Lala's \$435 million acquisition last May of National Dairy, the second largest dairy processor in the U.S. Lala's product line in the North American market will include not only milk and derivative products, such as butters, creams, and cheeses,

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but fruit juices as well. (Monterrey)

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¶10. (U) PEMEX TO HOLD 'MEET THE BUYER' SESSION: PEMEX will hold a Meet the Buyer session for a targeted group of 30 small to medium U.S. natural gas service and supplier firms on October 16, 2009 in Edinburg, Texas. The gathering will be held at the University of Texas Pan American's Small Business Development Center. PEMEX sought assistance in locating small to medium size firms to assist them with their Burgos Basin natural gas project. PEMEX states the goal of the project is to increase the number of natural gas wells in the Burgos basin from the 6,500 currently in operation. [Note: The U.S. side of the basin has more than 70,000 natural gas wells currently in operation.] According to PEMEX, the Mexican side of the Burgos basin has a potential capacity of 52 million square meters of natural gas. Sessions for invited business include: How to do business with PEMEX, a presentation by PEMEX's procurement division, and a presentation by PEMEX's commercial and customs agents. The session is being organized through the joint efforts of the U.S. Consulate General, Matamoros; the Mexican Consulate, McAllen, Texas; U.S. Commercial Service, U.S. Export Assistance Center, San Antonio, Texas; and the University of Texas, Pan American, Small Business Development Center. (Matamoros)

¶11. (U) ENERGY CONSUMPTION ON THE RISE: After having fallen to the lowest levels seen in years, national energy consumption statistics could indicate an increase in Nuevo Leon's industrial production. According to Federal Electricity Commission (CFE) and Secretariat of Energy data,

national consumption of electricity has almost recovered to levels typical before the economic crisis: in August 2009 electrical usage was 1001 gigawatts/hour, a 54% increase over January of 2009. This rate is only 3% below August 2008 figures. The consumption of natural gas is also growing, up to 714.7 million cubic feet/day in July 2009 from a low of 600 million cubic feet/day in January 2009, but 25% less than that of July 2008. According to Fernando Turner, President of the Nation Association of Independent Businessmen, much of Nuevo Leon's recovery stems from its auto parts industry as a result of the U.S. "cash for clunkers" stimulus plan. Inventories remain low and manufacturers are hopeful that demand for auto parts will continue to rise absent the U.S. stimulus plan. (Monterrey)

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¶12. (U) SECOND MAJOR WAVE OF H1N1 INFLUENZA HITS MEXICO: H1N1 influenza cases are peaking again in Mexico following the August 24 start of the school year. GOM ability to cope with the illness has improved greatly since the initial outbreak. Nationwide, numbers of reported flu cases are equal or close to those of April, when the outbreak was at its peak. However, unlike last spring, when lab capacity and lack of familiarity with the disease presented serious challenges to the Mexican health care system, public and medical practitioner awareness of the disease is high. The GOM is conducting its own public health campaign and is working closely with the Centers for Disease Control on presenting an accurate and unified message to the press and public. (Mexico City)

¶13. (U) FEMSA LAUNCHES ENERGY EFFICIENT REFRIGERATORS: Monterrey based beverage giant Fomento Económico Mexicano (FEMSA), in cooperation with commercial refrigerator manufacturer Ibera, recently announced the introduction of a new line of energy savings coolers and refrigerators, which are advertised as consuming 3.6 kilowatt hours/day, an electricity consumption reduction of 43% in comparison with conventional units. Alfonso Garza, Director General of Strategy for FEMSA, estimated that mini groceries and convenience stores could save approximately \$300/year utilizing the new units and significantly reduce their carbon footprints. (Monterrey)

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